



**DEPARTMENT OF INSURANCE, FINANCIAL  
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of The Farmers Mutual Fire Insurance Company of Shelby County, Missouri for the period ended December 31, 2015

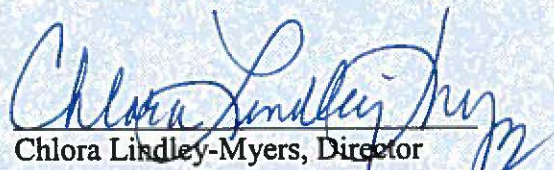
**ORDER**

After full consideration and review of the report of the financial examination of The Farmers Mutual Fire Insurance Company of Shelby County, Missouri for the period ended December 31, 2015, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 380.491, RSMo, adopt such report. The findings and conclusions of the report are incorporated by reference herein and are deemed to be my findings and conclusions.

Based on such findings and conclusions, I hereby ORDER The Farmers Mutual Fire Insurance Company of Shelby County, Missouri to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (2) submit a signed copy of the minutes of the meeting which reflect a corporate resolution to the effect the Examination Report has been reviewed and accepted.

So ordered, signed and official seal affixed this 16<sup>th</sup> day of October, 2017.

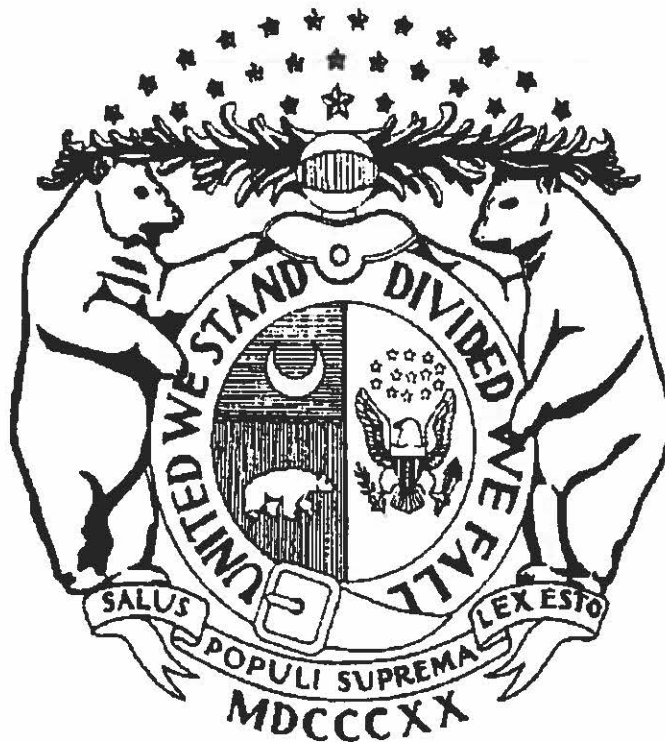


  
Chlora Lindley-Myers, Director  
Department of Insurance, Financial Institutions  
and Professional Registration



**REPORT OF THE  
FINANCIAL EXAMINATION OF  
THE FARMERS MUTUAL FIRE INSURANCE  
COMPANY OF SHELBY COUNTY, MISSOURI**

**AS OF  
DECEMBER 31, 2015**



**STATE OF MISSOURI**

**DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION**

**JEFFERSON CITY, MISSOURI**

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April 17, 2017  
Shelbina, Missouri

Honorable Chlora Lindley-Myers, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with the examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

**THE FARMERS MUTUAL FIRE INSURANCE COMPANY OF SHELBY COUNTY,  
MISSOURI**

hereinafter referred to as such, or as the "Company". The Company's home and principal place of business is located at 105 East Chestnut, Shelbina, Missouri 63468, telephone number (573) 588-7648. This examination began on April 13, 2017, was concluded on the above date, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2010, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP). The current full-scope examination covers the period from January 1, 2011, through December 31, 2015, and was also conducted by examiners from the Missouri DIFP.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

**Procedures**

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed

## HISTORY

### General

The Company was organized in October 1896 as Farmers Mutual Fire Association of Shelby County. On December 7, 1896, the Company received a Certificate of Incorporation from the Missouri Secretary of State. On October 21, 1972, the Company reorganized and changed its name to Farmers Mutual Fire Insurance Company of Shelby County, Missouri.

The Company has a Certificate of Authority dated June 14, 1996, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

### Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Saturday in February at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time, and shall be called upon petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting.

The corporate powers of the Company are vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of nine members, serving staggered, three-year terms. The Board of Directors meets every quarter. All Directors are compensated \$210 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2015, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Raymond Clem Clarence, Missouri	Retired	2014-2017
Charles Kirby Shelbina, Missouri	Farmer	2014-2017
Dwain Marquette Bethel, Missouri	Farmer	2014-2017
Paul Jarboe Clarence, Missouri	Farmer	2015-2018
Keith Douglas Emden, Missouri	Farmer	2015-2018

Kenny Latimer Hunnewell, Missouri	Farmer	2015-2018
Bert Greenwell Shelbina, Missouri	Farmer	2013-2016
Ronald Parsons Shelbyville, Missouri	Farmer/Seed Salesman	2013-2016
Gary Prange Shelbyville, Missouri	Farmer	2013-2016

The Board of Directors appoints for a term of one year, a President, a Vice President, and a Secretary/Treasurer. The officers of the Company serving at December 31, 2015, were as follows:

Raymond Clem	President
Paul Jarboe	Vice-President
Charles Kirby	Secretary/Treasurer

### **Conflict of Interest**

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis. No significant potential conflict disclosures were noted.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were amended during the examination period.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage of the Company meets the minimum coverage of \$75,000 suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers and purchases the errors and omissions coverage for its agent. The Company also carries general liability, home office building and office contents coverage.

## **EMPLOYEE BENEFITS**

The Company has three full-time employees and one part time employee. The full-time employees' benefits package includes paid time off as well as health, life, and dental insurance.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operations**

The Company is licensed by the DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, windstorm, and liability coverage throughout the state but writes primarily in Shelby and surrounding counties. A single agent produces business for the Company and receives a 20% commission on all new and renewal premiums.

### **Policy Forms and Underwriting Practices**

The Company utilizes AAIS policy forms. Inspections and underwriting are performed by the agent. The Company issues three-year renewable policies. All policies are issued with semi-annual payments, although the policyholder may elect to make annual payments. Rates are determined by the Board of Directors. Property inspections are performed by the in-house inspector prior to the issuance of a policy and every three years thereafter. Underwriting is performed by the Company. Claims are handled by the in-house adjuster or by contracted adjusters.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2015	\$4,456,207	\$319,524	\$937,991	\$ 159,347	\$81,519	\$ 52,469	\$ 129,462
2014	4,300,272	293,051	903,655	453,954	79,537	38,524	114,115
2013	4,225,209	332,103	885,265	302,845	82,634	(99,151)	(21,530)
2012	4,185,950	271,314	806,022	372,398	82,750	(10,176)	67,306
2011	4,082,214	234,884	757,786	1,290,876	87,462	(134,347)	(52,988)

At year-end 2015, there were 941 policies in force.

## REINSURANCE

### General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	2015	2014	2013	2012	2011
Direct	\$937,991	\$903,655	\$885,265	\$806,022	\$757,786
Assumed	0	0	0	0	0
Ceded	357,315	396,081	314,449	303,227	281,198
Net	<u>\$580,676</u>	<u>\$507,574</u>	<u>\$570,816</u>	<u>\$502,795</u>	<u>\$476,588</u>

### Assumed

The Company does not assume any business.

### Ceded

The Company's property and casualty reinsurance program is placed through the intermediary Guy Carpenter & Company, Inc. and consists of various contracts with multiple participating reinsurers (reinsurer).

Under the property per risk excess of loss agreement, the Company retains \$60,000 per risk and the reinsurer covers 100% of the excess, limited to \$500,000 per risk and \$1 million per occurrence. Under the property catastrophe excess of loss agreement, the Company retains \$154,000 per loss occurrence, and the reinsurer is liable for 95% of the first \$1 million and 100%



of the next \$2 million in losses in excess of the retention.

The unlimited aggregate excess of loss agreement covers property risks. The reinsurer is liable for 100% of losses which exceed 80% of the Company's gross net earned premium income during the year.

Under the casualty quota share agreement, the Company cedes 100% of the casualty premiums and losses to the reinsurer, and the reinsurer's liability is limited to \$500,000 per policy. The special casualty excess of loss agreement pertains to casualty policies with limits in excess of \$500,000, and adds additional reinsurer limits of \$500,000.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

### **ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on an accrual basis. Van de Ven, LLC, performs an annual financial statement compilation, prepares the annual statement, and provides tax preparation services for the Company. Accounting records for premiums, claims and financial reporting are maintained on a personal computer-based package provided by IMT Computer Services. Premium receipts are also manually recorded to a ledger. Claim documentation is kept in the policyholders' files.

### **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2015, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation).

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

**ASSETS**  
**December 31, 2015**

Bonds	\$ 2,331,440
Real Estate	52,807
Cash on Deposit	2,035,286
Premium/Assessments/Agents Balance Uncollected	12,424
Interest Due and Accrued	17,983
Prepaid Insurance	6,267
	<hr/>
Total Assets	\$ 4,456,207
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**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2015**

Net Losses Unpaid	\$ 5,800
Loss Adjustment Expenses	370
Unearned Premium	270,918
Accounts Payable – Other	1,143
Prepaid Policy Premiums	24,351
Federal Income Tax Payable	423
Ceded Reinsurance Premium Payable	16,519
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Total Liabilities	\$ 319,524
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Guaranty Fund	\$ 150,000
Other Surplus	3,986,683
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Total Surplus	\$ 4,136,683
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Total Liabilities and Surplus	\$ 4,456,207
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**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2015**

Net Premiums Earned	\$ 425,099
Other Insurance Income	24,130
Net Losses & Loss Adjusting Expenses Incurred	(154,498)
Other Underwriting Expenses Incurred	<u>(242,262)</u>
Net Underwriting Income (Loss)	\$ 52,469
Net Investment Income	81,519
Other Income	<u>217</u>
Gross Profit (Loss)	\$ 134,205
Federal Income Tax	<u>(4,743)</u>
Net Income (Loss)	<u>\$ 129,462</u>

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2015**

Policyholders' Surplus, December 31, 2014	\$ 4,007,221
Net Income (Loss)	<u>129,462</u>
Policyholders' Surplus, December 31, 2015	<u>\$ 4,136,683</u>

**NOTES TO THE FINANCIAL STATEMENTS**

None.

**EXAMINATION CHANGES**

None.

**SUMMARY OF RECOMMENDATIONS**

None.

**SUBSEQUENT EVENTS**

None.




**ACKNOWLEDGMENT**

The assistance and cooperation extended by the employees Farmers Mutual Fire Insurance Company of Shelby County during the course of this examination is hereby acknowledged and appreciated.

**VERIFICATION**

State of Missouri       )  
                                  )  
County of Cole         )


I, Marc Peterson on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

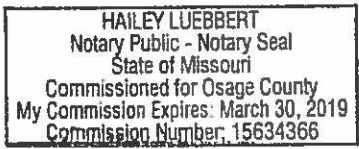
  
\_\_\_\_\_  
Marc Peterson, CFE  
Examiner-In-Charge  
Missouri DIFP

Sworn to and subscribed before me this 23<sup>rd</sup> day of June, 2017.

My commission expires:

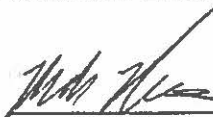
March 30, 2019

  
\_\_\_\_\_  
Notary Public



**SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

  
\_\_\_\_\_  
Mark Nance, CFE, CPA  
Senior Examiner-In-Charge  
Missouri DIFP